

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

FROM: William J. DiVello, Executive Director
Office of Integrity and Oversight *William J. DiVello*

DATE: March 14, 2011

SUBJECT: Final Management Alert on Lack of Address Cleaning Process on Real Properties
Tax Administration Mailing Database at the Office of Tax and Revenue (Report
No. MAR 10-2-26-OTR)

This is a Management Alert Report (MAR-10-2-26-OTR) to inform you that during our evaluation of the Internal Controls over Undelivered Mail and Address Change Processes, the Office of Integrity and Oversight (OIO) determined that, due to the absence of an address cleaning process on the Real Property Tax Administration (RPTA) Mailing Database, the Office of Tax and Revenue (OTR) experienced a large volume of undelivered mail of RPTA notices that could have been avoided. The OIO provides these reports when it believes a matter requires the immediate attention of the OTR officials.

On August 25, 2010, OIO initiated an Audit of Internal Controls Over Undelivered Mail and the Address Change Process (Assignment No. OIO-10-02-26-OTR). Our field work commenced on October 14, 2010 and is currently ongoing.

The objectives of the audit are to determine whether:

- (i) Effective internal controls are in place for processing undelivered mail for all OTR functional offices; and
- (ii) Effective internal controls are in place to provide reasonable assurance that the address change process is free from errors or fraud.

Background

The Office of Tax and Revenue is responsible for generating approximately one million or more business notices and/or bills on a yearly basis (OTR generated 1,010,699 notices/bills in 2009). The RPTA is responsible for providing taxpayers with a notice of property assessment and bills twice a year. The average mailing for RPTA is about 600,000 pieces per year. Currently, a contractor is used to prepare the RPTA mailing based on a file of addresses received from the Integrated Tax System (ITS) Real Property Mailing Database. Of the mail sent, OTR receives approximately 53,000 pieces of returned mail per year on a five-year average basis (for FY 2009, it was 55,688 pieces).

To ensure OTR is mailing notices and/or bills to updated and current addresses, OTR has a memorandum agreement with the U.S. Internal Revenue Services (IRS) where OTR, on a regular basis, requests the IRS to provide OTR with the IRS Taxpayer Address Request (TAR) Tickler File for address change data. The program updates addresses in ITS where the taxpayer's address has not updated in the last 18 months in the ITS mailing addresses database. However, this address cleaning process is only applied for other non-real property tax types mailing addresses.

Observation

1. Lack of Address Cleaning Process on Real Properties Tax Administration Mailing Database at the Office of Tax and Revenue

OIO noted the RPTA accounted for 70% or 37,000 pieces of the returned mail received on a five-year average basis. This large volume of returned mail can be attributed to the fact that the RPTA Mailing Address Database does not go through an address cleaning process such as comparing the Integrated Tax System (ITS) mailing addresses database with the IRS Taxpayer Address Request (TAR) Tickler File. Our discussion with the Office of the Chief Technology Officer (OCTO) Geographical Information System (GIS) project personnel revealed that OCTO's personnel also noted inconsistencies between the GIS Master Address Repository (MAR) and the ITS address database. OCTO communicated this issue to the OTR and the Office of the Chief Information Officer (OCIO) Tax Systems Group (TSG) in a memorandum dated May 21, 2009 (Exhibit I).

The Real Property Tax address database does not go through a cleaning process due to historical practices. TSG is aware of the lack of an address cleaning process on RPTA mailing addresses; however, it is TSG's understanding that the ITS records cannot be updated unless they are verified by the taxpayer. Although TSG cannot find a written policy that specifically states the change prohibition, TSG requires an OTR senior management directive to act contrary to the general understanding about changes to the mailing addresses.

Our request to the OCFO legal counsel on whether there are any statutes in the DC Code that speak to updating of taxpayer addresses for business, individual as well as real property taxes yielded the following (DC § 42-405):

- a) All parties with an interest in a particular real property shall notify the Recorder of Deeds in writing for a name change or address change.
- b) The Recorder of Deeds shall enter into its land records all updated information received.
- c) The District shall assess a fee not to exceed \$300 ~~against an interested party~~ if the District is unable to locate the interested party using all available information in the land records at the Recorder of Deeds or other information available at the Office of Tax and Revenue.

Due to the absence of an address cleaning process on the Real Property Tax Administration (RPTA) Mailing Database, OTR experienced a large volume of undelivered mail of RPTA notices that could have been avoided. It is estimated that on a yearly basis, OTR spends about \$65,000 to process RPTA undelivered mail (see Exhibit 2), and potentially suffers lost revenues caused by delinquent collection of property tax revenues. In addition, we understand OTR plans to conduct the RPTA mailing function in house instead of using a contracted vendor which makes the corrective actions from the above mentioned issue urgent.

Recommendation

To resolve potential issues and reduce costs associated with processing undelivered mail, we recommend:

1. The OTR Deputy Chief Financial Officer issue an Executive order to allow OCIO/TSG and the relevant RPTA personnel to perform an address cleaning process and update the RPTA mailing address database to avoid or minimize the unnecessary cost of processing undelivered mail and lost/delayed collection of real property tax revenue.
2. The OTR Real Property Tax Administration Director in conjunction with the OCIO Tax Systems Group collaborate with the OCTO GIS project personnel to investigate and correct (if deemed necessary) the inconsistencies between the ITS addresses and GIS MAS.
3. The Real Property Tax Administration Director use all available information in the land records at the Recorder of Deeds or other information available at the Office of Tax and Revenue, as required by the DC §42.405(a) and (b).
4. If the District is unable to locate the interested party after performing recommendation 3 above, the Real Property Tax Director consider assessing a fee against the interested party as allowed by DC §42-405.

MAR 10-2-26-OTR

March 14, 2011

Page 4 of 5

Management Response and OIO Comments

As noted in the OTR response, management has concurred with OIO's recommendations and has and/or will implement corrective actions detailed in the attached document below (Exhibit 3). We find OTR's corrective actions to be responsive to our recommendations, however, please provide us with definitive dates of completion for the planned corrective actions.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact Mohamad Yusuff, Director of Internal Audit, at (202) 442-8240 or me at (202) 442-6445.

Attachments

cc: Natwar M. Gandhi, Chief Financial Officer
Angell Jacobs, Chief of Staff, OCFO
Kathy Crader, Chief Risk Officer, OCFO
Jim Hightower, Director, Tax System Group, OCIO
Robert Farr, Director, Real Property Tax Administration, OTR

EXHIBIT 1: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM THE MANAGEMENT ALERT

Recommendations	Description of Benefits	Type of Benefit	Agency Reported Estimated Completion Date	Status¹
1	Improve RPTA Mailing Database Update Process and Reduce Undelivered Mail	Compliance and Internal Control	TBD	OPEN
2	Improve RPTA Mailing Database Update Process and Reduce Undelivered Mail	Compliance and Internal Control	TBD	OPEN
3	Improve RPTA Mail Delivery Process and Reduce Undelivered Mail	Compliance and Internal Control	TBD	OPEN
4	Improve RPTA Mail Delivery Process and Increase Fee Revenue	Compliance and Internal Control	TBD	OPEN

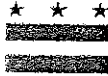
¹ This column provides the status of a recommendation as of the report date. For final reports, "Open" means management, and the OIG agree on the action to be taken, but action is not complete. "Closed" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has agreed to neither take the recommended action nor proposed satisfactory alternative actions to correct the condition.

Exhibit 2

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Chief Financial Officer

Office of Tax and Revenue



Stephen M. Cordi
Deputy Chief Financial Officer

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity and Oversight

FROM: Stephen M. Cordi

DATE: March 3, 2011

SUBJECT: OIO Management Alert (10-2-26-OTR)

This is in reference to your memorandum dated February 2, 2011, regarding the lack of an Address Cleaning Process on the Real Property Tax Administration's (RPTA) Mailing Database at the Office of Tax and Revenue.

An address cleaning process to prevent unnecessary returned mail in the Real Property Tax Administration had not been performed due to a policy of not updating address information unless instructed to do so by a property owner. Additionally, property taxes were paid for the vast majority of the accounts with returned mail or the Office of Tax and Revenue would have experienced a much larger volume of accounts for tax sale. In fact, over 80,000 accounts or 40% of all real property tax accounts are paid via electronic exchange of information between mortgage companies and OTR.

Based on our research the following are OTR's responses to your recommendations.

1. The OTR Deputy Chief Financial Officer issue an Executive order to allow OCIO/TSG and the relevant RPTA personnel to perform an address cleaning process and update the RPTA mailing address database to avoid or minimize the unnecessary cost of processing undelivered mail and lost/delayed collection of real property tax revenue.

We agree with this recommendation. The Deputy Chief Financial Officer (DCFO) will issue instructions authorizing an address cleaning process to minimize the cost of processing undelivered mail.

The recently mailed 2012 real property assessment notices are encoded to generate an electronic response from the U.S. Post Office alerting RPTA of updated mailing addresses. RPTA will update the RPTA mailing address database based upon the information obtained. We will also invoke CODE 1, an address normalization software product, against our mailing addresses. This should reduce mailing address errors and the unnecessary cost of processing undelivered mail. A review of the exceptions to the GIS MAS database indicates many of the address issues noted will be resolved by this action.

2. ~~The OTR Real Property Tax Administration Director in conjunction with the OCIO Tax Systems Group collaborate with the OCTO GIS project personnel to investigate and correct (if deemed necessary) the inconsistencies between ITS addresses and GIS MAS.~~

We agree with this recommendation. The Directors of RPTA and OCIO/TSG will meet OCTO GIS personnel to determine if there are additional address perfection enhancements to our now existing process in GIS MAS and if so, we will incorporate those enhancements.

3. ~~The Real Property Tax Administration Director use all available information in the land records at the Recorder of Deeds or other information available at the Office of Tax and Revenue, as required by the DC §42.405(a) and (b).~~

We agree with this recommendation. The RPTA Director will utilize all available information in the land records at the Recorder of Deeds (ROD). Address changes received at ROD are processed by our Maps and Titles Division.

4. ~~If the District is unable to locate the interested party after performing~~ recommendation 3 above, the Real Property Tax Director consider assessing a fee against the interested party as allowed by DC §42-405.

The Real Property Tax Director will consider assessing this fee if interested parties cannot be located by the alternate means discussed above.

If you have additional questions or concerns regarding this matter, please contact Robert Farr, Director, Real Property Tax Administration, at (202) 442-6685.

cc: Robert Farr, Director, Real Property Tax Administration, OTR
James Hightower, Director, Tax Systems Group, OCIO